

Fiscal Services Division

# 2008 Accounting Action Plan

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*Fiscal Services Division Plan  
To Enhance Financial Integrity*



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# 2008 Accounting Action Plan

## Executive Summary

The Fiscal Services Division presents its third annual plan to increase the financial integrity and accountability of its processes and procedures. This plan continues our efforts from the previous year to address deficiencies identified by our auditors and that appropriate action is taken to assure management that adequate internal controls are in place and are working as designed.

The previous Accounting Action Plans made substantial strides in strengthening our internal and administrative controls. This included achieving the goal of having one hundred percent of our general ledger accounts reconciled, completing an assessment of staff skills and creating a framework to develop and retain staff, and resolving the findings identified by our prior year auditors. Additionally, a review of the policies and procedures implemented from our 2006 plan was conducted. Recommendations were provided to the management of the Fiscal Services Division on the steps needed to ensure that policies and procedures are working as designed.

In this Accounting Action Plan, steps will be taken to ensure that the Division continues to complete the reconciliations for all general ledger accounts. With the completion of the staff skills assessment, the Division will begin moving forward to implement a training and development program for staff to enhance their knowledge and skills. The Division will continue to document key processes within the organization to strengthen its compliance with Sarbanes-Oxley and to ensure adequate accountability. Furthermore, a review will be conducted to ensure adherence to procedures that were implemented in the prior year.

Other objectives of the plan include addressing all current findings in the latest Macias, Gini & O'Connell, LLP, Management Letter (Exhibit A) and the latest Financial Integrity and State Manager's Accountability (FISMA) Audit. This will ensure that the Division is continuing to strengthen our system of internal and administrative controls by implementing the recommendations identified in both audits. The Fiscal Services Division is committed to documenting internal controls, communicating requirements to employees, and assuring internal controls are functioning as prescribed.

## Goal and Objectives

The goal of our third action plan is to continue to strengthen our internal accounting and administrative controls. The Fiscal Services Division will accomplish this goal by completing the following objectives:

- Objective 1 – Address current findings in the latest Macias, Gini & O’Connell Management Letter.
- Objective 2 – Address current findings in the latest FISMA Audit.
- Objective 3 – Review procedures implemented from our previous plans to ensure that they are working as designed.
- Objective 4 – Review and track general ledger account reconciliations to ensure reconciliations are completed timely.
- Objective 5 – Implement a training plan for accounting staff to develop the essential skills necessary to meet fiscal expectations and customer needs.
- Objective 6 – Update Phase I and continue Phase II of the Fiscal Services Division’s Operating Plan which will provide documentation of the higher risk accounting processes.

## 2007 Accounting Action Plan Implementation Review

The 2007 Accounting Action Plan utilized teams that implemented new procedures within the Fiscal Services Division. A subsequent review will be performed to ensure that these procedures are implemented and adhered to by staff. The procedures that were developed in response to the FY 2005-06 Deloitte and Touche Management Letter are as follows:

Team Name	Procedure
Account Reconciliation	<ul style="list-style-type: none"><li>• 100% general ledger account reconciliations</li></ul>
Contingency Reserve	<ul style="list-style-type: none"><li>• Established procedures to record an allowance for doubtful accounts</li></ul>
Fixed Assets	<ul style="list-style-type: none"><li>• Established procedures to properly capitalize fixed assets</li></ul>

Periodic evaluation and monitoring of these procedures will ensure that prior resolved deficiencies do not reappear. Additionally, this will reinforce the purpose of the procedures to existing and new staff. The review will consist of:

- Quarterly reviews of the general ledger account reconciliations to ensure 100% completion.
- Evaluating and increasing staff's awareness of these procedures.
- Determining any barriers that impede the usage of the procedures.
- What, if any, adjustments to the procedures are needed to facilitate more wide-spread usage.
- Working with Fiscal Services Division managers to ensure implementation of the procedures.
- Continuing the review of the policies implemented in the 2006 Accounting Action Plan.
- Working with the Fund Accounting Unit to ensure implementation of procedures to ensure review and approval of Judges' Retirement System (JRS) claim schedules prior to posting to the general ledger.
- Working with the Administrative Accounting Section to ensure the timely billing of administrative charges between funds.

Each subsequent action plan will include an implementation review to ensure continuous adherence to Division procedures. This will place a higher emphasis on management review for improved oversight.

### **Implementation of Training Plan**

The Fiscal Services Division management team and staff recognize that training is critical to the success of the organization. Consequently, the 2007 Staff Skills Assessment Team continued to build on the objectives outlined in the 2006 and 2007 Accounting Action Plans.

Armed with data gathered from the 2006 individual staff survey, the team assembled focus groups. These groups consisted of supervisors, managers, and staff from accounting areas throughout the Division. During the focus group meetings, members were asked to identify training skills that were important. The outcome of these discussions identified several areas in which to place attention. Both the management and employee groups identified the need to be proactive. While the supervisor/manager groups stated that the need should be "strategically proactive," the staff focus groups felt that staff should understand their completed work tasks and be able to address issues prior to problems occurring.

Based on the information gathered from the focus groups, the team drafted an Accounting Focused Training document for each accounting area. This unit specific document reflects the staffing classifications utilized in those areas. Additionally, the document separates the unit classifications into three categories to reflect the appropriate levels of training. These categories contain suggested time allotments needed for on-the-job training, as well as tools needed to adequately understand and perform tasks for each of the classification groups.

A commitment to provide the available resources to staff to improve individual skills remains as one of the highest priorities for the Fiscal Services Division. Therefore, in 2008, it is the intent of the team working on the Training Implementation Plan to take proactive strategic steps to ensure that the Fiscal Services Division maintains staff with the level of expertise required to ensure the high quality of services provided to CalPERS' customers (members, employers and employees).

To accomplish the objectives of this plan, the team will develop a uniform division-wide training policy which will include succession planning. The team will also continue to work with the accounting units to implement training plans that are currently being developed. This includes obtaining manager/supervisor commitment to allow for adequate on-the-job training with seasoned staff as guides, as well as initiating the framework for a training standards agreement.

Deliverables for the 2008 Training Implementation Plan Team are:

1. Update the Fiscal Services Division Training Policy.
2. Develop and distribute an employee training handbook, which will include:
  - Training guidelines for staff within the Fiscal Services Division.
  - Instructions on how to access desired training.
  - Information regarding on-site and off-site training opportunities.
3. Establish a centralized training repository.
4. Present the initial framework for a mentorship and train-the-trainer program.

## **Operating Plan**

The Fiscal Services Division has been developing the operating plan since 2005. The Division continues to strengthen its compliance with Sarbanes-Oxley and is committed to maintaining an appropriate level of documentation to ensure adequate internal control and accountability. The operating plan serves as a uniform and comprehensive product that provides a road map of each unit's operation. The operating plan will be utilized as a management tool and a reference guide.

The following two phases are included in the operating plan:

Phase I – Includes documentation for each unit as outlined below:

- Section A - Unit Mission/Purpose
- Section B - Unit Goals and Objectives
- Section C - Unit Organizational Chart
- Section D - Unit Process List
- Section E - Workload Statistics
- Section F - Activity Analysis
- Section G - Monthly/Yearly Work Plan
- Section H - Calendar of Events
- Section I - Performance Measures

Phase II - The documentation in this phase consists of process maps and narratives for the major processes within each of the Division's units. The process maps provide descriptions of the major activities within each unit and identifies key employees for each activity. All units' processes were prioritized and consolidated within the division according to functionality, visibility, backup availability, and audit findings. Processes are being documented in priority order.

The progress of the operating plan documentation is as follows:

- Phase I - This phase was first completed in FY 2005-06 and was included in the 2006 Accounting Action Plan. It is management's intent to update the Phase I sections every 2 years. The update for FY 2007-08 is currently in process.
- Phase II - The documentation of 17 high priority processes was scheduled for FY 2006-07 and included in the 2007 Accounting Action Plan. Documentation was completed for 16 of the processes. One process was postponed to FY 2007-08 due to a system upgrade.

The Fiscal Services Division is currently working on documenting four additional processes in FY 2007-08.

To better align the timeframe of the operating plan (fiscal year) with the Accounting Action Plan (calendar year), the proposed work for the 2008 Accounting Action Plan includes:

- Phase I – Update all of the sections for each unit (completion scheduled for FY 2007-08).
- Phase II – Document 15 processes (4 for FY 2007-08, and the remaining 11 for the latter half of Calendar Year 2008) as identified in the table below:

#	Unit	Processes
1.	SS	PeopleSoft security administrator
2.	RPA	ERS maintenance & monthly reconciliation
3.	FR	Internal reporting
4.	IA-PAU/RE	Prime Meridian wire process
5.	FR	External reporting
6.	FR	Financial analysis
7.	IA-PAU/RE	Cash Manager wire process (update #4)
8.	IA-SI	Prime Meridian/Cash Manager system support
9.	IA-PAU	SJ1C/9C rolling balance confirmation
10.	IA-PAU	SJ9C trial balance comparison (Access vs. MC)
11.	IA-PAU	Year-end reconciliation & financial statements
12.	IA-PAU	Prepare PeopleSoft GL entries
13.	SS	PeopleSoft system year-end closing
14.	SS	Develop PeopleSoft queries & reports
15.	SS	Resolve PeopleSoft end-users system issues

### **LEGEND**

FR - Financial Reporting Unit  
 IA-PAU - Investment Accounting - Portfolio Accounting Unit  
 IA-RE - Investment Accounting – Real Estate Unit  
 IA-SI - Investment Accounting – System Integration Unit  
 RPA - Retirement Program Accounting Unit  
 SS - System Support Unit



## **FISMA Review**

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) in 1983. The act requires state agencies to establish and maintain a system of internal accounting and administrative controls. To ensure the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits covering accounting and fiscal compliance practices. The Office of Audit Services is currently responsible for conducting such audits within CalPERS.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

The Office of Audit Services recently completed the FISMA Review for 2007. The review identified 22 control deficiencies for the Fiscal Services Division. The following table is a summary of the deficiencies and areas reviewed.

<b>Area Reviewed</b>	<b>Number of control deficiencies identified</b>
Cash Receipts	1
Receivables	2
Purchasing	5
Cash Disbursements	3
Revolving Fund	8
Personnel & Payroll	3
<b>Total Deficiencies Identified</b>	<b>22</b>

Management is responsible for establishing and maintaining adequate internal controls. This responsibility included documenting internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed.

The Fiscal Services Division is responsible for establishing and maintaining adequate internal controls over the Division's accounting practices and systems in order to provide assurance that the accounting system and its underlying data are reliable and functioning as designed.

In 2007, the Fiscal Services Division will assemble a team to address the control deficiencies identified in the FISMA review conducted by the Office of Audit Services. To resolve the deficiencies, the team will meet with affected unit managers and supervisors to discuss what corrective actions will be taken to address the deficiencies and determine when such actions will be completed.

### **FY 2006-07 Management Letter Items**

#### ***A. Reconciliation of CalPERS' Real Estate Contribution and Distribution Control Accounts***

As a part of the 2007 Accounting Action Plan, the Fiscal Services Division implemented steps to improve the reconciliation process within the Real Estate general ledger accounts. As a result of these steps, adjustments were made to the Contribution Control and the Distribution Control accounts that enhanced our ability to complete the reconciliations of these accounts.

The Fiscal Services Division completed the following:

1. Refined the reconciliation methodology for the Real Estate Contribution and Distribution Control accounts.
2. Reconciled the control accounts for FY 2006-07.
3. Implemented several process improvements which included the updating and modification of the real estate Excel posting templates.
4. Expanded the Excel spreadsheets which summarize, by partner, all outstanding reconciling items.
5. Developed individual spreadsheets for each partner where Portfolio Accountants note the cause of a reconciling item. This eliminates the overstatement of revenues and expenses by netting, when applicable, transactions that are recorded in a different way by our partners than State Street Bank records them. This most often happens when capital is returned by a partner as a reduction in a contribution but is recorded as a distribution by State Street Bank.

For the 2008 Accounting Action Plan, the Fiscal Services Division plans to act on the momentum from last year's plan by looking at continuous process improvements while focusing on four distinct areas:

1. Maintain the reconciliation of both control accounts monthly.
2. Investigate reconciling items and prepare the necessary journal entries to clear each item. Due to the various ways that the partners report Bank of America transactions, this activity can take up to six months to complete.
3. Recognize timing differences by rolling forward those amounts to the subsequent month.
4. Develop a roll-up spreadsheet that will provide a consolidated view of remaining outstanding items in the control accounts which will reconcile to the general ledger.

***B. Reconciliation and Review of CalPERS' Insurance Premium Reimbursements***

The Fiscal Services Division altered the way in which insurance premiums are tracked beginning with FY 2007-08. The Real Estate Unit established a process to track insurance receivables from the partners. This process includes tracking insurance reimbursements through the use of various spreadsheets. This information is then posted into the PeopleSoft general ledger.

AON, a CalPERS contractor, determines the appropriate insurance premium, invoices each partner, and provides the Real Estate Unit with a spreadsheet of outstanding invoices. Direct payments come in by wire or checks are remitted directly to the Cashiers Unit. The Real Estate Unit provides monthly updates to AON of all reimbursements received. The Real Estate Unit plans to reconcile the reimbursements with AON on a monthly basis.

***C. Reconciliation of Real Estate Unit and Investment Office's Performance Monitoring Unit Quarterly Financial Data***

The Real Estate Unit posts the monthly financial statements received from the partners to the real estate posting templates which are the basis for monthly journal entries to the PeopleSoft accounting records. At year end, the Real Estate Unit accrues revenues and expenses for the partners who have not filed their June financial statements and for all partners who file on a quarterly basis.

CalPERS external auditors requested an adjustment be made for Net Asset Value by using actual quarterly data provided by the partners rather than using the accrual method that CalPERS used as directed by the previous external auditor.

This was accomplished by reconciling the Performance Monitoring Unit's Net Asset Value calculations with the real estate Excel posting template as of June 30, 2007. This reconciliation led to an adjustment of approximately \$108 million.

Beginning in FY 2007-08, the Fiscal Services Division will perform the following procedures to report Net Asset Value more accurately:

1. Collaborate with the Investment Office to ensure receipt of financial statements from all real estate partners.
2. The real estate posting templates have been modified to add a quarterly adjustment column which is used to post closing adjustments a partner makes to their quarterly financial statements. This column will also be used for partners who are required to submit financial statements on a quarterly basis. This will ensure that data is posted in the quarter in which the activity occurred. The Real Estate Unit will continue to post the Cash Flow Form data on a monthly basis.
3. On a monthly basis, complete a multilevel reconciliation of the general ledger data with the real estate posting template. On a quarterly basis the data will also be reconciled to the Investment Office. The Real Estate Unit intends to post all partner quarterly financial statements before producing a final journal entry for FY 2007-08 partnership activity.

#### ***D. Alternative Investments Accounting and Reporting***

As part of the annual external audit performed by Macias, Gini, & O'Connell, it was noted that procedures were not in place to properly value and report alternative investment valuations. During their testing, it was discovered that approximately \$80 million in fair values had been excluded from the year-end PrivateEdge report and the CalPERS general ledger.

PrivateEdge provides customer accounting, performance measurement reporting and online access to information for CalPERS private market investments. Management has the responsibility to review the reports prepared by PrivateEdge and to determine if they agree to partnership financial statements.

The Fiscal Services Division is taking corrective action by establishing a new Alternative Investment Management (AIM) Unit within the Investment Accounting Section to focus on the following areas:

1. Review and enhance procedures to ensure alternative investments are properly valued and reported.
2. Evaluate the reasonableness of final valuation adjustments reflected in partnership financial statements and on PrivateEdge reports.
3. Work with the Investment Office, PrivateEdge, State Street Bank, and our partners to ensure transactions recorded in the general ledger are accurate.

#### ***E. Accounting for Unitization Activities***

The unitization process provides CalPERS with the benefit of ownership of the shares or units of pooled assets from other CalPERS investment portfolios. In response to unitization activities, the associated accounting processes and procedures have increased in complexity. During the FY 2006-07 year end process, discrepancies were identified between the custodian, State Street Bank, and the CalPERS general ledger. The discrepancies were traced to the differences in methodologies utilized by State Street Bank and CalPERS to process the unitized portfolios revenue and expense activities. An adjusting entry was developed to reconcile the problem with the assistance of the external auditor.

The external auditor recommended that current accounting practices for unitized portfolios be evaluated to ensure that CalPERS investment activities are recorded consistently and accurately. The external auditor also noted some inconsistencies in the way unitized and non-unitized portfolios are reported in the financial statements. These differences are appropriate because not all unitized and non-unitized portfolios are identical in structure or value.

The Fiscal Services Division will consistently and accurately reflect unitization activities in CalPERS financial records. The following steps will be implemented to evaluate and improve the current accounting processes:

1. Establish a cross functional project team to focus on improvement of unitization accounting practices.
2. Review State Street Bank's accounting and reporting practices of asset transfers related to the unitization process.
3. Collaborate with the Investment Office to ensure receipt of advance notification of future and pending unitizations. The Fiscal Services Division will request a copy of the Investment Office's service requests sent to State Street Bank to authorize unitizations.

4. Evaluate the current unitization process and develop a sound reconciliation methodology. This includes review and analysis of all associated journal entries posted in the PeopleSoft general ledger and any foreseeable impact on the financial statements.
5. Update procedure manual(s), train identified staff and integrate quality assurance checks to ensure consistent and accurate financial reports.

#### ***F. Reconciliation of Benefit Payments***

As part of the management letter issued by Macias, Gini, and O'Connell, the auditors noted that the Fiscal Services Division does not reconcile retirement benefits processed in the Retirement Information and Benefits System (RIBS) and the Contribution Reporting System (CRS) subsidiary ledgers to the benefit payments recorded in the PeopleSoft general ledger. They recommended that management implement procedures to reconcile benefit payments recorded in the general ledger to the activities in the respective subsidiary ledgers to ensure benefit payments are properly recorded as the period, amount, fund, and classification.

The Fiscal Services Division currently reconciles all benefit payments including payments from RIBS as a part of the reconciliation between the Employer Reserve System (ERS) and the general ledger. In addition, the Fiscal Services Division reconciles benefits payments recorded in the CalPERS general ledger to the State Controller's Office claims schedule on a monthly basis. To address the auditor's recommendation, the Fiscal Services Division plans to implement an enhanced reconciliation process to ensure benefit payments from RIBS and CRS are recorded accurately to the respective general ledger accounts. Deliverables for the Reconciliation of Benefit Payments are as follows:

1. Analyze and implement the new reconciliation process to ensure that benefit payments processed from RIBS and CRS are properly recorded in the general ledger.
2. Document the new process.
3. The Retirement Program Accounting Unit will work with the Systems Support Unit to develop additional reports to assist with the reconciliation.
4. Implement this new process as a part of the mid-year and annual closing process.
5. Include this reconciliation to the external auditor's Prepared by Client list to ensure that information is readily available for audit review.

### ***G. Accounting for Other Postemployment Benefits***

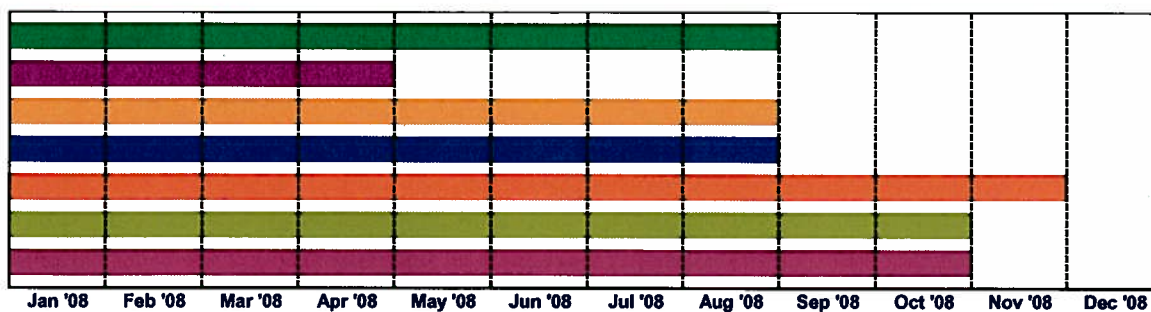
As part of the management letter issued by Macias, Gini, and O'Connell, the auditors recommended that management establish a process to easily identify and record Contingency Reserve Fund (CRF) agency activities and that management should consider establishing a separate general ledger fund or sub-fund to account for these activities.

The CRF is used to account for administrative costs related to the CalPERS health care programs. This includes Public Agency employers and members collections and billings, and prepaid accounts for annuitant premiums. In the past, CalPERS reported all CRF activity as an Enterprise fund. With the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plan* (OPEB), beginning in FY 2006-07, it was necessary to segregate and report the enterprise and agency activity within the CRF separately.

The Fiscal Services Division will establish a process in FY 2007-08 to efficiently identify and record CRF agency and Health Care Fund activity. The new process will be developed to fulfill the objective of creating records of health premium transactions that are clearly and conveniently organized to facilitate validation and analysis by management and the independent auditors. This new process will also produce financial statements that comply with the requirements of GASB No. 43.

As part of the development of the new process, the Fiscal Services Division will work with the Employer and Member Health Services (EMHS) Division to identify reports and opportunities to capitalize on the data in the Public Agency Billing System to facilitate the easy identification of CRF Agency activity.

### Timeline for Resolving FY 2006-07 Management Letter Items



#### 2006-07 Management Letter Items

- A. Reconciliation of Real Estate Contribution and Distribution Control Accounts
- B. Reconciliation and Review of CalPERS' Insurance Premium Reimbursements
- C. Reconciliation of Real Estate Quarterly Financial Data
- D. Alternative Investments Accounting and Reporting
- E. Accounting for Unitization Activities
- F. Reconciliation of Benefit Payments
- G. Accounting for Other Postemployment Benefits



## **Risk Assessment Review**

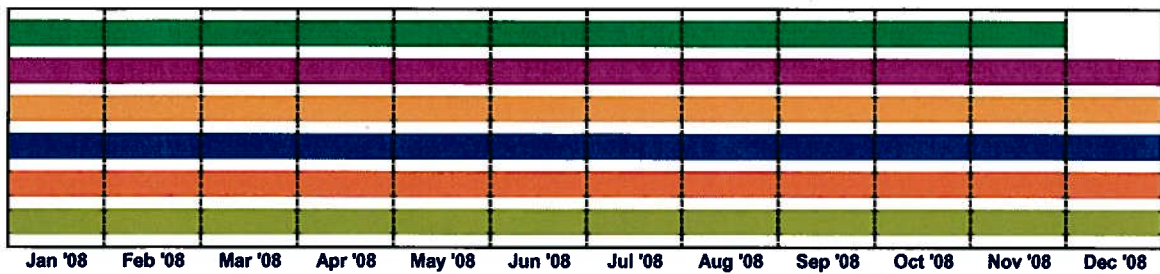
The vision of the Fiscal Services Division is to be the nation's leader in pension fund accounting. To reach this goal, it is necessary to implement all pertinent accounting regulations. On December 15, 2006, the Statement of Accounting Standards Number 109 (SAS No. 109), Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, went into effect. SAS No. 109 requires all entities to implement a risk assessment process that identifies, analyzes and manages risks relevant to the preparation of financial statements that are presented fairly in conformity with generally accepted accounting principles.

Management is responsible for the fair presentation of financial statements that reflect the nature and operations of the entity. In representing that the financial statements are fairly presented in conformity with generally accepted accounting principles, management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of information in the financial statements and related disclosures.

To implement this requirement, management will need to review where the risks of material misstatement rests and determine the controls that will be needed to prevent a material misstatement on the financial statements.

## Timeline

### Proposed 2008 Accounting Action Plan Timeline



#### 2008 Accounting Action Plan

- Objective 1 - 2006-07 Management Letter Items
- Objective 2 - FISMA Audit Items
- Objective 3 - Procedure Implementation Review
- Objective 4 - GL Reconciliation Tracking and Review
- Objective 5 - Training Plan Implementation
- Objective 6 - Operating Plan I & II

## **Conclusion**

The Fiscal Services Division will continue to implement internal controls that will further ensure financial integrity through the processes identified in this plan. The primary objective of this plan is to:

- Ensure policies and procedures implemented from our previous plans are working as designed.
- Reconcile all appropriate accounts.
- Train and develop all accounting staff to meet fiscal expectations and customer needs.
- Document accounting processes.
- Address internal control deficiencies identified by our internal auditors.
- Address outstanding audit findings identified by our external auditors.

The Fiscal Services Division will continue to increase efficiency and strengthen control of all funds and programs maintained by CalPERS. The Fiscal Services Division is committed to the growth and development of our staff. Our commitment to our staff will further enhance our financial integrity by retaining our most valuable resource and meeting our complex accounting needs. The annual accounting action plan represents our continued review and evaluation of the fiscal processes to exceed the needs of the department and safeguard our members' financial security.